

# Cash Report

## Fiscal Year 2019, Q2



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## Cash Report: Fiscal Year 2019, Q2

The City of Philadelphia (City) releases a summary of its current financial state, entitled the Quarterly City Manager's Report (QCMR), 45 days after the close of each fiscal quarter. As part of the QCMR, the City publishes actual and projected monthly cash balances for its major operating funds, as well as revenues and expenditures for its principal operating fund, the General Fund. The QCMR offers the most up-to-date snapshot of the current cash position of the City and the most accurate projection for cash balances at the close of the fiscal year. As part of our ongoing commitment to increasing transparency around the City's financials, the Controller's Office releases data on the City's cash position in an interactive format following the release of each QCMR.

This report summarizes the City's cash position at the end of the second quarter of Fiscal Year 2019 (FY19 Q2). It is divided into two main sections. The first discusses the cash balances for the City's major funds, and the second examines the revenues and expenditures associated with the General Fund. In both sections we present actual data from FY19 Q2, as well as the projected data for the rest of the current fiscal year. All data used in this report is taken directly from the City's QCMRs.

### Key Takeaways

- Due to its historically strong General Fund cash balance, the City did not have to borrow any short-term funds, known as TRANS, during FY19 Q2. This is the first time the City has not done so during the second quarter of a fiscal year in more than ten years.
- The Consolidated Cash balance at the end of Q2 was \$174M more than the City projected at the end of the first quarter of this fiscal year, driven by higher than anticipated balances for the Grants Fund (+\$109M) and the General Fund (+\$60M).
- General Fund cash revenues and expenditures both increased in FY19 Q2 relative to the second quarter of last fiscal year, with increases of 9 and 19 percent respectively. This revenue total was \$36M higher than the City expected at the end of the last quarter, while the Q2 spending total was \$23M less than the City's Q1 estimate.
- Year-end projections for the City's cash balances and total General Fund revenue/spending are consistent with those from last quarter. Annual General Fund cash receipts and expenditures are still expected to grow by about 4 and 12 percent, respectively, relative to last fiscal year.

### Cash Balances

The City publishes the monthly cash balance, actual and projected, for each of its major funds, within the QCMR. For its day-to-day operations, the City pools together the cash balances associated with several funds into a single account, known as the Consolidated Cash account. Three major funds, listed below, and several smaller funds, including the Housing Trust and Hospital Assessment Funds, contribute to the Consolidated Cash account:

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- the General Fund, which is the principal operating fund of the City. About three-quarters of the revenue flowing into the General Fund is generated from local taxes;
- the Grants Fund, which manages grants received from state, federal, and private agencies; and
- the Capital Fund, which manages resources for investing in facilities and infrastructure throughout the city. The majority of its revenue arises from bond proceeds.

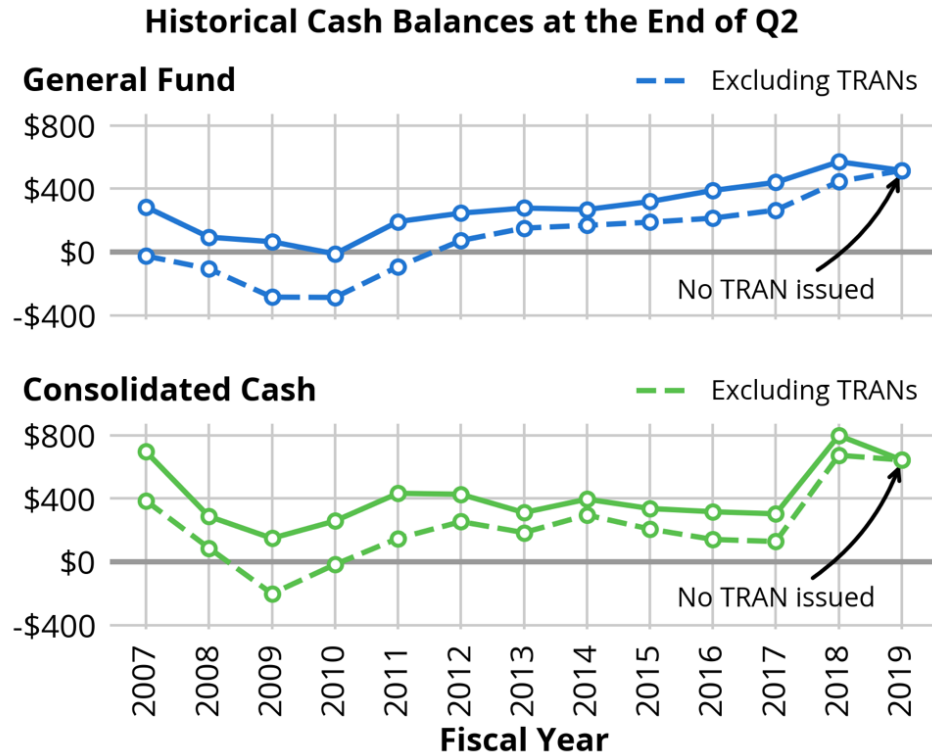
The Consolidated Cash balance at the end of FY19 Q2 was \$643.4M, down from \$798.1M at the end of FY18 Q2. The General Fund's Q2 balance was also lower: \$515.8M in FY19 as compared to \$570.6M in FY18.

The first reason for the lower Consolidated Cash balance is that the Capital Fund ended FY19 Q2 with a balance \$123M lower than the balance after FY18 Q2. This year-over-year change is typical of the Capital Fund's financial cycle, as the City spends down its bond proceeds. The City would replenish this account with the expected issuance of new debt in FY20.

The second reason for the lower Consolidated Cash balance is a lower General Fund balance as a result of the City not issuing a Tax and Revenue Anticipation Note (TRAN) during the last quarter. To offset seasonal trends in General Fund revenues and expenditures and to improve its cash position, the City often borrows short-term funds, known as TRANs. The City typically has borrowed these funds during the second quarter of each fiscal year, which it then repays before the close of the year. For example, the City last issued a TRAN in December of FY18, which raised the General Fund balance by \$125M. It then repaid this note in May 2018.

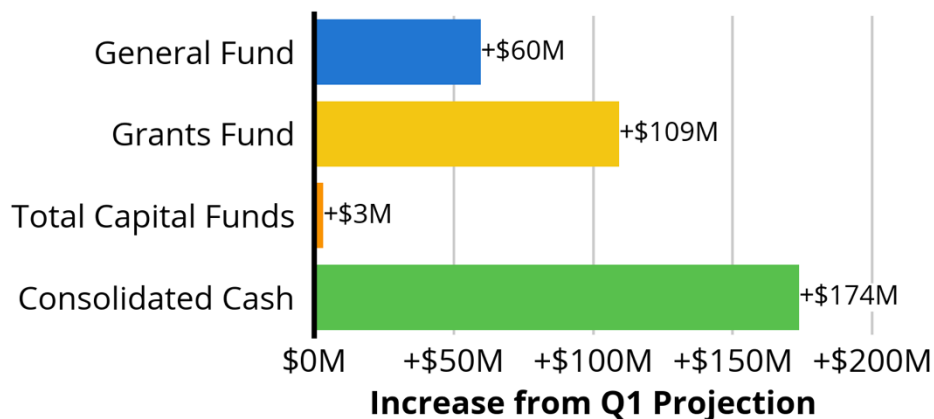
For the first time in more than ten years, however, the City has not issued a TRAN in FY19 due to the City's historically strong cash position. As seen in the chart below, the General Fund balance for FY19 Q2 is the highest Q2 balance in more than ten years when excluding the financial impact of TRANs on previous Q2 General Fund balances. The Consolidated Cash balance at the end of FY19 Q2 is slightly lower than last fiscal year's Q2 balance, after accounting for the impact of last year's TRAN.

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The City's cash levels following Q2 of this fiscal year are higher than anticipated. In particular, the Consolidated Cash balance of \$643.M was \$174M higher than the City's projection following the first quarter of the fiscal year. The larger Consolidated Cash balance resulted from higher-than-expected balances for the General Fund (+\$60M) and the Grants Fund (+\$109M) relative to the City's Q1 projection.

### Actual Cash Balances at the End of Q2 vs. Q1 Projections



Despite the higher-than-expected Consolidated Cash position, the City anticipates the year-end cash balance to be lower than the Q1 projection by about \$30M. This is due in part to adjustments to General Fund revenue and expenditure projections for the second half of the fiscal year. Relative to Q1 projections, the City has lowered its General Fund total cash receipts

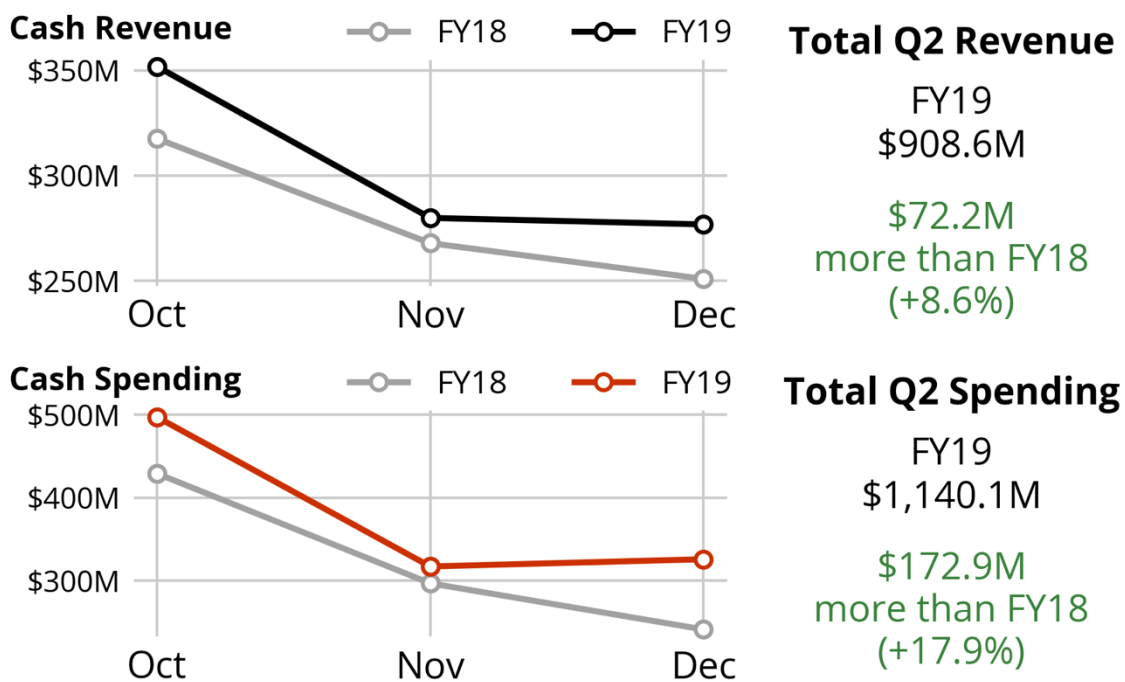
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projections by a cumulative \$57.5M for January to June FY19, while raising expenditure projections for that same period by \$33.8M. The combination of these adjustments corresponds to a net decrease in the General Fund balance relative to the Q1 projection. The City's projection for the year-end Grants Fund balance has remained unchanged, despite its end-of-Q2 balance outpacing projections by \$109M. If this trend continues throughout the fiscal year, the Consolidated Cash balance would be higher than anticipated, meaning that the City's current projections are likely underestimated.

### General Fund Revenue / Spending

As the principal operating fund for the City, the General Fund's finances offer a unique perspective on the City's current fiscal state. Monthly revenues and expenditures for the General Fund are published as part of the QCMR and offer further insight into the cash position of the City. The majority of revenues for the General Fund are generated from local taxes, the largest of which are the Wage Tax, Real Estate Tax, and Business Income and Receipts Tax. On the expenditure side, the City's largest annual costs are due to payroll, pension payments, and employee benefits. Other costs include purchases of services (e.g. contracts), debt payments, and equipment and supplies.

### General Fund Cash Revenue/Spending in FY19 Q2 vs. FY18 Q2



As seen in the chart above, General Fund cash revenue and spending during FY19 Q2 increased by 9 and 18 percent respectively, relative to Q2 of FY18.

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The total revenue in Q2 was \$36M more than the City anticipated following Q1 while the spending total was \$23M less than the City's Q1 projection. These differences with the Q1 projections resulted in the end-of-Q2 General Fund balance being \$59M higher than anticipated, as discussed in the previous section.

The projected totals for General Fund revenues and expenditures in FY19 are consistent with those from last quarter. Relative to last fiscal year, total General Fund cash expenditures are projected to increase by about 12 percent, while total revenue is expected to only grow by 4 percent. These annual projections are only slightly adjusted from those following Q1 of this fiscal year, with a net change of about \$30M.